REPORTABLE CONDITIONS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

I. District Medicaid Provider Accounting and Financial Reporting

Observation

Various District agencies, including the DCPS, provide a variety of Medicaid services to eligible District residents. The costs incurred by these agencies are summarized in cost reports that are submitted to the Medical Assistance Administration (MAA), part of the District's Department of Health, for approval before claims are submitted to the federal government for reimbursement. Total Medicaid reimbursements for DCPS average almost $23 million per year. We noted the following matters that we believe impact the DCPS' ability to record accurately and timely amounts owed from the federal government for eligible services provided by DCPS:

DCPS incurs Medicaid reimbursable expenditures primarily related to services provided to special education students at private schools or by other third party contractors. However, because the private schools and other vendors do not always provide sufficient or timely encounter data to the DCPS Medicaid program office, many of these costs are considered ineligible for reimbursement by the U.S. Department of Health and Human Services. At September 30, 2002, DCPS recorded approximately $5 million to reduce previously recorded Medicaid revenues and receivables that were no longer considered collectible. Additionally, the DCPS Medicaid program office appears not to have an effective process to follow up with vendors to obtain necessary encounter data to improve DCPS' ability to receive Medicaid reimbursement for special education student services provided. Further, DCPS does not require charter schools to submit encounter data and as a result, does not apply for any Medicaid reimbursement for these potentially eligible services provided. Finally, there is no process in place to provide for timely communication between MAA and the DCPS Office of Financial Operations.

Recommendation

We recommend that DCPS require Medicaid service providers and charter schools to provide relevant encounter data to permit DCPS to bill the Medical Assistance Administration (MAA) timely and in sufficient detail to ensure claims for reimbursements are not denied. We understand that requiring such information from the service providers and charter schools may not be possible under existing contracts. Because the special education program, and the required payments to service providers, are under various court orders, it may be necessary to petition the Court to require service providers to provide such information in a timely manner.

Agency Response

Management of the Medicaid program office was recently assumed by the Special Education Division. The Medicaid office has taken action to increase collections of claims for reimbursements. Also, the Medicaid office communicates directly with the MAA since it is no longer managed by the Office of the Chief Financial Officer.

II. Human Resource/Payroll Process Management

Observation

Over 63% of DCPS' annual operating expenditures are for employee compensation and benefits. The maintenance of employee personnel information such as personnel action forms and withholding authorizations is a critical component of internal control over the payroll process. Time sheets documenting (1) the hours worked by employees, (2) related grants or other projects charged and (3) supervisory review and approval must also be maintained. We noted the following matters impacting the DCPS' ability to effectively manage its payroll process:

- The Human Resources Department does not have adequate control procedures in place to track personnel movement with in the school system. When a teacher moves within the school system, the Human Resources and Payroll departments are not always notified. This results in an incorrect personnel profile and incorrect timekeeping at one or both schools. Further, in order for the employee to be paid, authorization must be initiated by the school with the current record not by the school with supervisory authority. For individuals that are not identified after their movement, their payroll costs are posted to a payroll default account and must be manually adjusted to the appropriate cost center.

- DCPS failed to appropriately pay approximately 3,200 DCPS employees compensation for pay increases that were due, but not processed on a timely basis by the human resources and payroll departments, amounting to approximately $4.5 million. Further, the human resources and payroll departments did not properly pay teachers in accordance with the annual teachers contract, resulting in the over or under compensation of teachers who were hired or whose employment terminated during the year.

- DCPS does not perform adequate review of Official Personnel Folders (OPFs). The OPF should contain the employees' job application form, W-4 form, INS form I-9 and related forms of identification, and relevant documents to support grade and/or step increases. During our testing, we noted that key documents were missing from employee OPFs. The District Personnel Manual Issuance System, DPM Bulletin No. 31-B-1 requires that all OPFs be reviewed on an annual basis to ensure retention of all key documents in the employees' OPFs.

- During the fiscal year, the payroll default account accumulated transactions in the amount of $16 million due to incomplete information in personnel profiles entered by Human Resources. These transactions subsequently had to be reclassified to an appropriate cost center. There is no management review process in place to ensure that the reclassifications are appropriate.

- DCPS does not have formal policies in place for Human Resources to notify Director of Financial Systems of changes in employment status of DCPS personnel and the related changes in user access profiles. For example during our process analysis testing of ADPICS and R*STARS procurement and accounts payable systems, we noted that several DCPS' employees had access capabilities that were inconsistent with their positions. Currently, when an employee position changes resulting in an access change, the supervisor is responsible to notify the Director of Financial Systems. The process is informal and controls do not exist to insure that changes in access profiles are performed in a timely manner.

- As noted in a report prepared by another consulting firm, the DCPS does not have an effective system to accurately monitor the number of employees being compensated in comparison to the annual human resource budget.

Recommendations

To improve internal control over the payroll process we recommend that DCPS:

- Bring all individual payroll records up to date during the implementation of the new Peoplesoft financial management system. Additionally, Peoplesoft should be designed to systemically calculate pay increases, payroll allocations, especially effort reporting for employee compensation supported by federal and other grants. Further, policies and procedures should be designed and implemented to monitor employee movement on a current basis to insure their salaries are allocated to appropriate cost centers, the number of employees per cost center does not exceed the budget and modifications of access profiles are made timely.

- Establish a methodology for employee file maintenance and related physical safeguards at each file room and assign responsibility for these matters to a single employee at each location.

Agency Response

The majority of these findings will be corrected with implementation of PeopleSoft. In addition, to strengthen personnel management, a new Human Resources Director was hired and 30 positions have been added to the Human Resources budget. With support from Human Resources, the Office of the Chief Financial Officer has taken action to ensure that teachers were properly paid during school year 2002-2003. With PeopleSoft implementation, OCFO staff will no longer be required to manually reclassify expenditures to various funds through out the fiscal year. The Human Resources and Financial Offices are taking steps to improve files maintenance.